Exceptional and Discretional

Legal Standards and Strategies for Obtaining Attorneys' Fees in Intellectual Property Cases

By Steven E. Lauridsen and Brian K. Brookey

The time to lay the groundwork for a successful attorneys' fees motion is at the beginning of the case, not the end.

One of the first questions a client often asks when hiring a lawyer to defend against, or to bring, an intellectual property infringement action is, "Can I recover my fees?" And the typical answer is, "It depends, but I wouldn't count on it."

However, the possibility of a court awarding attorneys' fees should never be discounted. Fees are available in "exceptional" patent or trademark infringement cases, and they may be awarded at the court's discretion in copyright actions. Attorneys should bear this in mind when preparing and implementing their litigation strategies, particularly in light of three important Supreme Court rulings in the last few years governing attorneys' fees in intellectual property cases; *Octane Fitness, LLC v. Icon Health & Fitness*, 572 U.S. 545 (2014); *Highmark Inc. v. Allcare Health Management System, Inc.*, 572 U.S. 559 (2014); and *Kirt-*

■ Steven E. Lauridsen, an attorney with Tucker Ellis LLP in Los Angeles, has diverse patent and trademark prosecution and counseling experience. He has represented companies of all sizes in patent, trademark, copyright, trade secret, and unfair competition litigation at both the trial and appellate levels. He litigates matters in U.S. district courts, U.S. courts of appeal, and the International Trade Commission. Mr. Lauridsen also has extensive experience litigating matters before the Trademark Trial and Appeal Board of the United States Patent and Trademark Office. Although he has particular expertise concerning computer software, Mr. Lauridsen has advised clients in numerous technologies and industries. Brian K. Brookey, a partner in the Los Angeles office of Tucker Ellis LLP, focuses on patent, trademark, copyright, and trade secret litigation. He litigates intellectual property matters in district courts throughout the country, U.S. courts of appeal, and the International Trade Commission and also has significant experience handling contested trademark matters before the Trademark Trial and Appeal Board. Mr. Brookey represents a broad range of companies across numerous industries and technologies. He currently serves as the DRI Intellectual Property Litigation Committee membership chair and received DRI's Albert H. Parnell Outstanding Program Chair Award for his efforts as the 2018 DRI Intellectual Property Litigation Seminar program chair.

saeng v. John Wiley & Sons, Inc., 136 S. Ct. 1979, 1988 (2016).

The *Octane Fitness* and *Highmark* Standards for Attorneys' Fees in Patent Cases

The Patent Act provides a pithy description of when attorneys' fees are available: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C.§285. With no statutory definition of "exceptional," the Federal Circuit held that this standard may only be met "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11 or like infractions." *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). Moreover, a party seeking attorneys' fees had the burden of making this showing with clear and convincing evidence. *Id.* at 1382.

In *Octane Fitness*, the Supreme Court rejected what it called the "rigid" and "mechanical" *Brooks Furniture* test in favor of a more "holistic, equitable approach." The Supreme Court defined "exceptional case" under section 285 to mean "one that stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Octane Fitness*, 572 U.S. at 554. Additionally, the Court changed the burden of proof for fee motions from the clear and convincing evidence standard to the preponderance of the evidence standard. *Id.* at 557. And while the Supreme Court indicated that exceptional cases should still be "rare," *Octane Fitness* substantially lowered the standard for finding a case exceptional.

In a second decision issued the same day, the Supreme Court also held that courts of appeal should review a district court's award of fees under the Patent Act for abuse of discretion, as opposed to the previously applied de novo standard. *Highmark Inc. v. Allcare Health Management System, Inc.*, 572 U.S. 559 (2014).

Thus, in one day, the Court both lowered the standard for proving a case exceptional and raised the standard for challenging an award of fees on appeal.

Octane Fitness as Applied to Patent Cases

After *Octane Fitness*, numerous litigants have been discovering that district courts are applying the more permissive and subjective standard, resulting in a sharp uptick in both motions for fees as well as awards for fees. Still, other litigants have had their motions denied where the district court has determined that the case is not exceptional compared to other cases on its docket. *See, e.g.*, *Gensetic, Inc. v. Barlor College of Medicine*, No. 4:17-cv-01025 (S.D. Tex. Feb. 19, 2019) ("[T]his lawsuit, itself, is not exceptional or extraordinary. The parties may consider themselves to be exceptional, and perhaps they are.… Nevertheless, this Court probably has ten intellectual property lawsuits on its docket with more exceptional circumstances."); *Twin Rivers Engineering, Inc. v. Fieldpiece Instruments, Inc.*, No. 2:16-cv-04502 (C.D. Cal. Sept. 4, 2018) ("[T]he Court reaffirms that the present case is not an exceptional one. Rather, the Court finds the present case to be a typical hard fought patent litigation between competitors."); *Hitkansut LLC v. United States*, 1:12-cv-303 (Fed. Cl. Mar. 15, 2019) (finding it not unreasonable to spend millions of dollars in fees to obtain a judgment of $200,000: "Irrespective of an economic analysis, 28 U.S.C. §1498(a), like other fee-shifting statutes, contemplates awards of attorneys' fees and costs in excess of damages precisely to allow vindication of rights by those with limited means").

In other cases, district courts deny the request for fees in a perfunctory order that simply points out that the case does not stand out from others. *See, e.g.*, *HVLPO2, LLC v. Oxygen Frog, LLC*, No. 4:16-cv-336 (N.D. Fla. Feb. 20, 2019). In many such cases, the district court pointed out that it had overseen the entirety of the litigation, and based on what it saw, the case was not exceptional.

At the end of the day, the data indicate that litigants cannot just wait until their case is over to argue that their case is exceptional. District courts are busy and experience a wide range of cases. It is therefore crucial to use effective strategies throughout the litigation to set up a case as exceptional in the eyes of the court. A successful fees motion will be one in which the district court has already observed the objective baselessness of the losing party's arguments, or the improper litigation conduct by that party and its counsel.

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Octane Fitness as Applied to Trademark Cases

The Lanham Act, similar to the Patent Act, provides that a prevailing plaintiff is entitled to an award of its reasonable attorneys' fees in an "exceptional case." 15 U.S.C. §1117(a). As the Ninth Circuit has explained, "[w]hile the term 'exceptional' is not defined in the statute, attorneys' fees are available in infringement cases where the acts of infringement can be characterized as malicious, fraudulent, deliberate, or willful." *Rio Props., Inc. v. Rio Intern. Interlink*, 284 F.3d 1007, 1023 (9th Cir. 2002). And "[a] case may be considered 'exceptional' where the defendant disregards the proceedings and does not appear." *Taylor Made Golf Co., Inc. v.*

Carsten Sports, Ltd., 175 F.R.D. 658, 663 (S.D. Cal. 1997).

Soon after the *Octane Fitness* decision, appellate courts across the country began noting that the fee-shifting provisions in the Patent and Lanham Acts are "parallel and identical." *SunEarth, Inc. v. Sun Earth Solar Power Co.*, Ltd., 839 F.3d 1179, 1180 (9th Cir. 2016). So far, the First, Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth, and Eleventh Circuits have recognized that *Octane Fitness* changed the standard for fee-shifting under the Lanham Act. *Id. Scholz v. Goudrea*u, 901 F.3d 37, 50 (1st Cir. 2018); *Sleepy's LLC v. Select Comfort Wholesale Corp.*, 909 F.3d 519 (2d Cir. 2018); *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 313–15 (3d Cir. 2014); *Georgia–Pacific Consumer Prods.*, 781 F.3d 710, 720–21 (4th Cir. 2015); *Baker v. DeShong*, 821 F.3d 620, 621–25 (5th Cir. 2016); *Slep–Tone Entm't Corp. v. Karaoke Kandy Store, Inc.*, 782 F.3d 313, 317–18 (6th Cir. 2015); *Sturgis Motorcycle Rally, Inc. v. Rushmore Photo & Gifts, Inc.*, 908 F.3d 313, 346 (8th Cir. 2018); *Tobinick v. Novella*, 884 F.3d 1110 (11th Cir. 2018).

Staffing cases properly and running a case economically will help convince a court that the amount sought is "reasonable."

Thus, the overwhelming weight of authority indicates that the *Octane Fitness* and *Highmark* standards will apply when a successful trademark litigation seeks an award of fees. And the same considerations should apply when litigating a trademark case with an eye toward seeking fees at its conclusion.

Attorneys' Fees in the Copyright Context

The Copyright Act's fee provision does not require a case to be "exceptional"; instead, it expressly imposes a discretionary standard in a copyright infringement action:

> the court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title, the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.

17 U.S.C. §505.

In a unanimous opinion, the Supreme Court recently clarified the meaning of "full costs." According to the Court, "full costs" refers to the full amount of costs incurred in the six categories identified in 28 U.S.C. §1821 and §1920. Other types of costs, such as electronic discovery expenditures, jury-consulting expenses, and expert witness fees, are not recoverable by statute and thus are not covered by the term "full costs." The term "full" does not expand the number of categories of costs that are recoverable. What does expand those categories, however, is the second sentence of section 505, which also permits the recovery of attorneys' fees. *Rimini Street, Inc. v. Oracle USA, Inc.*, No. 17-1625, ___ U.S. ___, 2019 WL 1005828 (Mar. 4, 2019).

District courts are required to put "substantial weight on [the] objective reasonableness" of the losing party's position, although courts "must [also] take into account a range of considerations beyond the reasonableness of the litigating positions." *Kirtsaeng v. John Wiley & Sons, Inc.*, ___ U.S. ___, 136 S. Ct. 1979, 1988 (2016). One of the factors the district court should consider is whether there was any litigation misconduct. *Id. at* 1988–89 ("[A] court may order fee-shifting because of a party's litigation misconduct, whatever the reasonableness of his claims or defenses.").

The ultimate consideration is whether an award of attorneys' fees to the prevailing party promotes the Copyright Act's objectives. *See Wall Data, Inc. v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769, 776, 786 (9th Cir. 2006) (approving a $516,271 attorneys' fees award to "further the goal of copyright law"). For instance, fee shifting based on unreasonable litigation positions promotes useful copyright litigation "because it both encourages parties with strong legal positions to stand on their rights and deters those with weak ones from proceeding with litigation." *Kirtsaeng*, 136 S. Ct. at 1986–87.

Fee motions are of particular importance in copyright litigation because the recovery, whether by statutory damages or profits, may be greatly eclipsed by the amount of attorneys' fees expended. In fact, fee awards may be particularly justified when the recovery is small. *Crown Awards, Inc. v. Discount Trophy & Co., Inc.*, 564 F. Supp. 2d 290, 294 (S.D.N.Y. 2008), *aff'd*, 326 Fed. Appx. 575 (2d Cir. 2009). Some courts have even gone so far as to state that attorneys' fees awards under the Copyright Act "are the rule rather than the exception and should be awarded routinely…." *Positive Black Talk, Inc. v. Cash Money Records, Inc.*, 394 F.3d 357, 381 (5th Cir. 2004), *abrogated on other grounds*, *Reed Elsevier, Inc. v. Muchnick*, 559 U.S. 154 (2010). This philosophy, along with the availability of statutory damages, emboldens what are pejoratively referred to as copyright "trolls." But it also should encourage defendants to defend against meritless cases aggressively, rather than give in to what often feels like an extortion attempt.

Conclusion

Every patent or trademark case has the potential to be "exceptional," and it is important to treat every such matter as one that may need to lead to the recovery of attorneys' fees. In copyright cases, fees are awarded more frequently, and the possibility of recovery also should inform litigation decisions in those actions. Making sure the presiding judge is aware of the objective unreasonableness of the other parties' positions, of unreasonable litigation conduct (including discovery abuses), and of other factors that make a case appear different from others on his or her docket will help lay the groundwork for a motion for fees at the end of the case. Staffing cases properly and running a case economically will help convince a court that the amount sought is "reasonable." And keeping careful, detailed, time records will assist the court in calculating the appropriate amount of fees to grant. The time to lay the groundwork for a successful attorneys' fees motion is at the beginning of the case, not the end. FD